Chapter

8

INDOT 2030 Long Range Plan

Fiscal Forecast

INDOT Long-Range Plan Fiscal Forecast

The fiscal forecast used in this 2030 Long-Range Plan update represents the third generation of an initial fiscal forecast that was developed in 2000 to support the INDOT 2000 – 2025 Long-Range Plan. That initial fiscal forecast was developed by the INDOT Division of Budget and Fiscal Management. In its second generation, the forecast was updated and modified slightly to support the 2003 Amendments to the Long-Range Plan. This, the third generation of the fiscal forecast continues to share many of the fiscal assumptions from the original 2000 fiscal forecast; it has been updated and extended outward to the 2030 planning horizon.

BACKGROUND: Prior to the adoption of the 2000 – 2025 Long-Range Plan, INDOT historically had assumed a conservative two percent revenue growth rate over time for its fiscal projections. In this conservative approach INDOT wanted to ensure that both the residents of Indiana and the construction industry would not anticipate more projects than INDOT would be able to reasonably fund. During the development of the 2000 – 2025 Long Range Plan, INDOT came to the conclusion that a conservative approach to forecasting can be safe, but that it could also serve as an artificial restriction, limiting the number of projects that could be developed and built. The conservative approach to forecasting tends to underestimate revenue streams, limiting the number of projects that can be programmed for development. A more accurate fiscal forecast, one that reflects observed increases in highway funding, would support a more robust program of projects, permitting more projects to be programmed into the pipeline and resulting in faster project development and delivery.

Thus, the initial *2000 fiscal forecast* used to support the 2000 – 2025 Long Range Plan was a compromise between the aggressive and conservative approaches to revenue forecasting. The first two years of the forecast (2000 – 2001) used the figures from INDOT's biennial budget. A more aggressive set of revenue assumptions was then applied to the next ten year period (2002 – 2011), reflecting the increases in highway funding that INDOT was receiving from the federal Transportation Equity Act for the 21st Century (TEA -21) (Public Law 105-178) and the State of Indiana's Crossroads 2000 Program. The Crossroads 2000 program was responsible for an additional $800 million highway preservation and added capacity construction projects across Indiana. For the final fourteen year (2012 – 2025) period of the forecast, INDOT tapered its revenue projections back from the aggressive approach and returned to a more traditional, conservative forecast.

For the later conservative forecast years from 2012 to 2015, INDOT tied the available resources for construction to a level that assumed that construction spending would remain constant on a per capita basis. The 2011 forecasted total construction program totaled $1.37 billion. In 2011, Indiana was projected to have 6.44 million persons, thus creating a per capita construction spending figure of $212.80. This approximate construction dollar per capita figure was assumed for the final segment of the Long Range Plan fiscal forecast.

The initial 2000 fiscal forecast resulted in an overall $31.3 billion construction program for the twenty-six year period, distributed between preservation and expansion needs and broken into five funding periods. Figure 8 – 1 is a graph which illustrates the initial fiscal forecast, showing the breakdown between preservation and expansion costs.

Figure 8 - 1

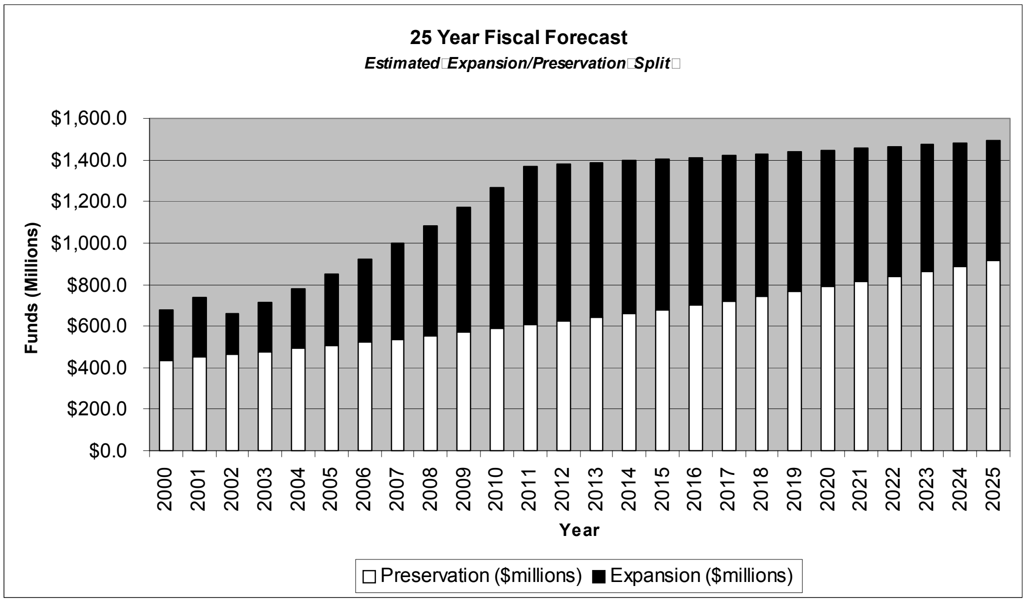


Figure 8 -2 is a chart which illustrates how the forecast was subdivided into five funding periods; it also breaks out the preservation cost from the expansion costs.

Figure 8 - 2

Long Range Fiscal Forecast *Initial estimate of Preservation/Expansion Split*			
Funding Period	**Preservation**	**Expansion**	**Total**
2000-2004	$2,319.0	$1,250.2	$3,569.2
2005-2009	$2,688.4	$2,337.0	$5,025.4
2010-2014	$3,116.4	$3,682.9	$6,799.3
2015-2019	$3,612.8	$3,489.9	$7,102.7
2020-2025	$5,102.7	$3,705.7	$8,808.4
	$16,839.3	$14,465.7	$31,305.0

Note: All figures are listed in millions of current (2000) dollars

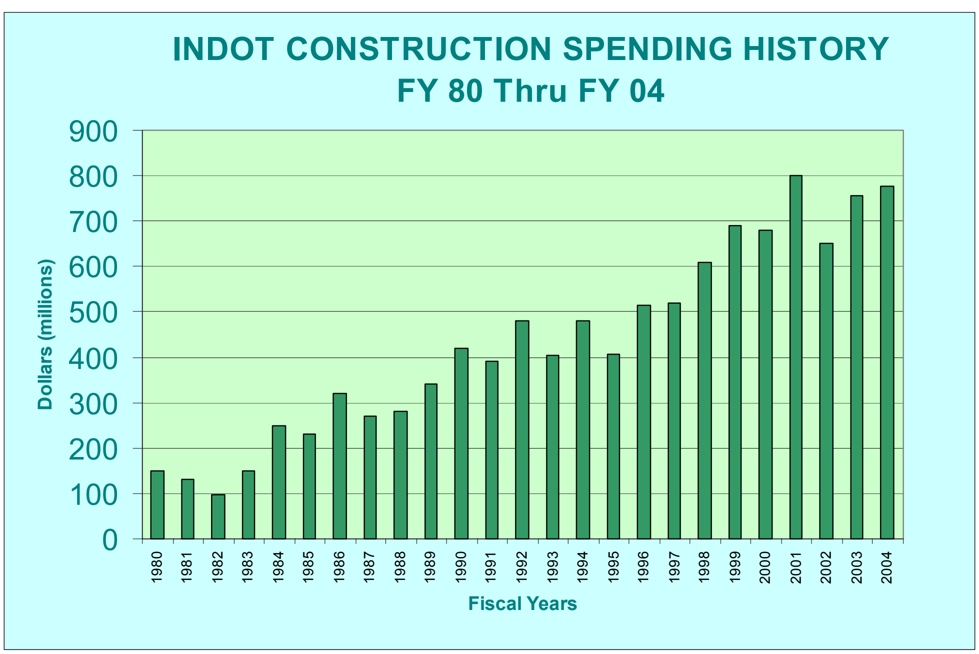
There were a number of assumptions that were used in the development of the initial 2000 long-range fiscal forecast. As with all forecasts, many assumptions must be made. For example, for purposes of the initial forecast an assumption was made regarding the breakdown of funding to be spent on expansion projects versus preservation activities. Based on historical funding trends, preservation activities as shown in white in Figure 8 – 1, were assumed to increase at a three percent per year rate over the course of the twenty-six year forecast period. It should also be noted that the expansion category includes a significant amount of preservation activities in the form of pavement replacement on existing highway segments that have been identified for added travel lanes. For instance, an added travel lanes project for an interstate where one additional lane will be added to the two existing single direction lanes generally will be timed to coincide with the time that the existing pavement is expected to fail. In the process of adding the additional lane, the two existing lanes will be reconstructed as part of the process, resulting in a finished product of three new lanes in each direction. For simplicity sake in such cases, two-thirds of the costs listed for the interstate added travel lane project actually constitute preservation costs, since the two existing lanes are also being reconstructed as part of the process. By that same principle, only one third of the cost, representing the one additional lane, would actually apply as expansion costs.

INDOT attempted to use historical as well as conventional wisdom in making the 2000 long-range fiscal forecast. The department's goal was to provide a starting point for the development of a long-range construction program for the State of Indiana and it was noted in the plan that the fiscal forecast assumed additional funds from some source would occur in the future. The time and amount of the additional funds were not forecasted.

THE REVISED 2004 – 2030 FISCAL FORECAST

The third generation, 2004 to 2030 long-range fiscal forecast represents a twenty-seven year fiscal horizon for the 2004 Long-Range Plan update. It builds and expands on the work that was completed for the first two generations of the forecast. It employs the same set of forecast assumptions that was developed by the Policy and Budget Division and Chief Financial Officer for the years 2000 – 2025. For this update, INDOT began with a review of its construction spending history for the twenty-five year period from 1980 to 2004. Figure 8-3 is a chart which illustrates the period. As illustrated in the chart, this period experienced a somewhat steady increase in construction spending. The period from 1996 through 2004 reflects the impacts from the federal TEA 21 Act and State's Crossroads 2000 program.

Figure 8 - 3



In this forecast, INDOT expects that the increased highway spending as seen in the recent past will continue into the future, at least to through the next federal reauthorization legislation. INDOT's 2004 construction spending was $777 million. For this third generation forecast, the 2004 INDOT construction spending figure was converted to 2003 dollars resulting in a $765 million. For the federal reauthorization period 2005 to 2011, an annual growth rate of 8.5% was applied, this growth rate mirrored the average 1980 to 2004 construction spending history growth rate. From 2012 through 2030, a more conservative 1% growth rate was applied. As with the earlier generations of the fiscal forecast, this time frame is beyond the current limits of the federal reauthorization and is consequently less predictable.

Figure 8 – 4 illustrates the third generation fiscal forecast used to support the 2004 Long-Range Plan update. This forecast projects a construction revenue forecast totaling $34.7 billion over the course of the twenty-seven year period. The funding that would be made available to expansion projects totals $15.2 billion with $19.4 billion reserved for preservation projects. The preservation cost rate of growth remains the same 3% annually. This assumption remains unchanged from the initial 2000 fiscal forecast. Figure 8 – 5 is a table that shows the breakdown of the projected revenues by funding period and by preservation and expansion costs. Again, as with the initial fiscal forecast, it is important to note that this forecast assumes additional funding from some additional funding source will occur in the future. The time and amount of the additional funds are not specified in the forecast.

Figure 8-4

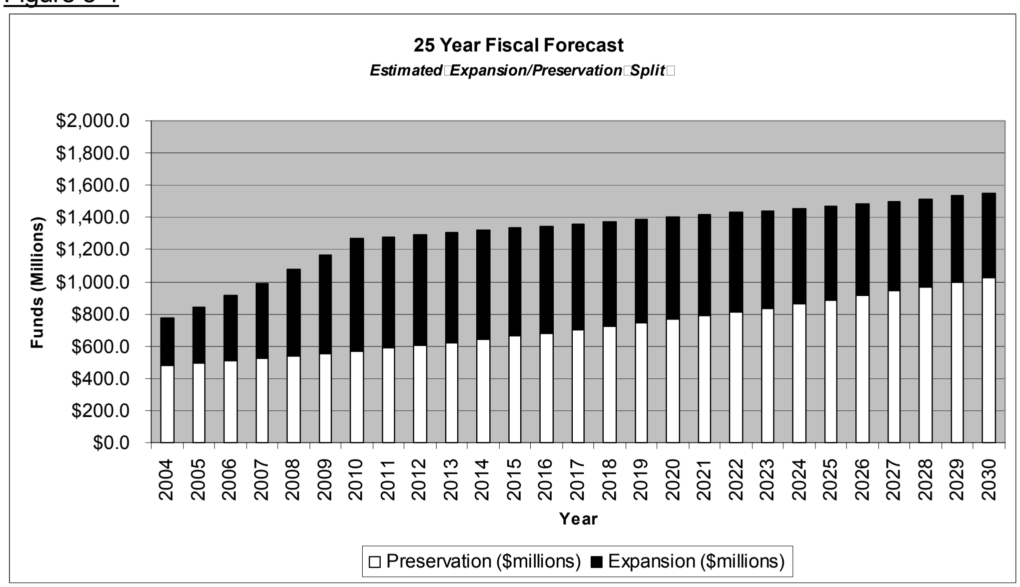


Figure 8 – 5

Long Range Fiscal Forecast *Initial Estimate of Preservation/Expansion Split*			
Funding Period	**Preservation**	**Expansion**	**Total**
2004-2009	3,087.4	2,595.8	5,683.2
2010-2014	3,025.8	3,340.6	6,366.4
2015-2019	3,507.7	3,183.5	6,691.2
2020-2024	4,066.4	2,966.1	7,032.5
2025-2030	5,743.4	3,170.7	8,914.1
	19,430.7	15,256.7	34,687.4

Note: All figures are listed in millions of current (2003) dollars

The forecast assumptions that were used for the second generation fiscal forecast for the 2003 amendments and also applied to this third generation forecast were reviewed by INDOT's Chief Financial Officer and other Executive staff in April of 2003. An element in that review involved the impact of the potential reauthorization of the federal transportation six-year funding legislation.

Indiana's state transportation program is funded in large part by a six-year federal transportation bill: The Transportation Equity Act for the 21st Century, commonly referred to as TEA-21. TEA-21 is an *authorization* Act that was signed into law on June 9, 1988. The legislation *authorizes* the federal-aid highway, transit, safety and research programs charged with maintaining and improving the nation's surface transportation system.

Both TEA-21 and its predecessor: The Intermodal Transportation Efficiency Act of 1991 (ISTEA) provided increased funding for Indiana, an average of an additional $261 million per year over the life of the two federal Acts. Before the passage of TEA-21, Indiana received only 78 percent back into the state from its share of contributions to the Federal Highway Trust Fund to use for highway maintenance and construction, one of the lowest percentages in the nation. Indiana is what is known as a *donor state,* a state that pays more federal taxes to the Highway Trust Fund than it receives back. The Federal Highway Trust Fund is the primary source off funds for federal surface transportation programs. The Federal Highway Trust Fund is a user supported fund that collects revenues in the form of federal taxes paid on gasoline, diesel fuel, gasohol, special fuels such as liquefied natural gas (LNG) and compressed natural gas, and heavy vehicle use fees for commercial vehicles.

Prior to the passage of TEA-21, Indiana joined with a coalition of states to ask Congress for a more equitable distribution of the gas tax paid by each state. Congress responded with a significant increase in the guaranteed rate of return from the Trust Fund, increasing it to 90.5 percent. This permitted Indiana to make the necessary improvements to the highway system to maintain the mobility and safety of the traveling public.

TEA21 expired on September 30, 2003. Since then, Congress has enacted five short-term extensions, but is has yet to pass a new reauthorization bill. The latest extension, the *Surface Transportation Extension Act of 2004* (H.R. 5183) was signed into law on September 30, 2004. This extension will expire on May 31, 2005.

Both the US House of Representatives and the Senate have passed versions of a highway reauthorization bill. The House of Representative's version is known as H.R. 3550 *Transportation Equity Act: A Legacy for Users* (TEA-LU). The Senate version is known as S. 1072 *Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2003* (SAFETEA). The two versions include significant differences in funding levels and the treatment of the *"donor states"* issue which will require a conference committee between the House and Senate to resolve.

The House approved bill (TEA-LU) is a $275 billion transportation bill, with a $221.5 billion guarantee for highways. The Senate approved bill (SAFETEA) is a $318 billion transportation bill, with 240.3 billion available for highways.

Indiana's share of the six-year formula highway funds totals $4.65 billion under the House TEA-LU bill and $5.79 billion under the Senate SAFETEA bill. Both versions represent an increase in federal funding over the record $3.96 billion that was apportioned to Indiana duringTEA-21 Act.

In addition, the House has designated $224 million in specific (earmarked) Indiana projects, while the Senate has not identified their projects at this time.

While both pieces of legislation provide additional federal funding, the two are different in their approach to a state's funding rate of return. TEA-LU maintains the TEA-21 minimum return of 90.5 percent of a state's federal gas tax dollars paid to the Highway Trust Fund, with a bill "re-opener" implementing a gradual rate of return beginning in October 2005. SAFETEA guarantees a 90.5 percent return for the first five years of the bill, with a legislated return of 95 percent in the sixth year of the bill.

However, under the two bills, Indiana's real rate of return drops to an estimated 84 percent for TEA-LU and 87 percent for SAFETEA. This is because the amount of the program that the return is applied to (known as the "scope" of the guarantee) has an impact on Indiana's eligible return from the Trust Fund.

As the two pieces of legislation move to that critical conference committee, Indiana continues to work with its congressional delegation to increase the guaranteed rate of return to the 95 percent level on at least the same amount of the program as TEA-21 provided.